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INTERNAL AUDIT DEPARTMENT

Audit No. 2317-D

May 22, 2003

Members, Board of Supervisors
Hall of Administration Building
10 Civic Center Plaza
Santa Ana, CA 92701

Dear Honorable Board Members:

We have completed the April 2003 report of the results of our Computer-Assisted Audit Techniques (CAAT). The report is attached for your information.

We would like to acknowledge the courtesy and cooperation extended to us by the personnel of the Auditor-Controller's Office and the CEO/Office of Human Resources. As always, I remain available to answer any questions you may have. Please contact me directly or Eli Litter, Deputy Director at (714) 834-5899 if we can be of further assistance.

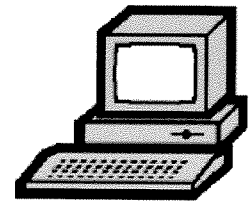
Respectfully submitted,

A handwritten signature in cursive script, reading "Peter Hughes".

Dr. Peter Hughes, CPA, CITP
Director

Attachment

cc: Members, Audit Oversight Committee
James D. Ruth, Interim County Executive Officer
David Sundstrom, Auditor-Controller
Robert Leblow, Manager, Auditor-Controller/Claims & Disbursing Section
Virginia Czarnecki, A-C/Information Technology/CAPS G/L System Support
Jan Walden, Director, CEO/Office of Human Resources
Patti Cahill, Manager, CEO/HR/ HR Standards
Scott Sanders, Senior Systems Programmer Analyst, CEO/HR/Employee Benefits
Bill Rawlings, Director, CEO/Purchasing & Real Estate
Paula Kielich, Administrator, CEO/Purchasing/Automated Purchasing Program
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury



Monthly Report on
Computer-Assisted Audit Techniques
(CAAT)
Report Date: April 30, 2003

Audit No. 2317-D

Audit Director:	Dr. Peter Hughes, CPA, CITP
Deputy Director:	Eli Littner, CPA, CISA
Audit Manager:	Autumn McKinney, CIA
Staff Auditor:	Leigh Riddle



Internal Audit Department

COUNTY OF ORANGE

CAAT Program: This report details the monthly activity and findings from establishing Computer-Assisted Auditing Techniques (known by the acronym CAAT) as a part of our information technology audit coverage. We are using a proprietary, state-of-the-art/best practices and industry recognized software product to help us in this process. We are keeping the details of our process and the vulnerabilities identified to a general discussion because of the risks associated with disclosing specific details of our financial and accounting processes.

The CAAT is a continuing and evolving audit process with the goal of developing a toolset of computer-routines and techniques that will analyze patterns in the individual data elements of the County's financial data. The resulting data/exceptions will be subjected to further review, analysis validation, recovery and evaluation of internal control enhancements whose purpose is to prevent future occurrences of the findings identified by the CAAT process.

1. CAAT Performed: **Duplicate Payments.** We used a CAAT to identify potential duplicate payments made March 2003.

Results: No potential duplicate payments were identified in the March 2003 data.

The table below summarizes the duplicate payment activity to date:

CAAT Report	Total		Not Duplicates		Recovered		In Process	
	#s	\$'s	#s	\$'s	#s	\$'s	#s	\$'s
May 2002	12	\$12,922	0	\$0	0	\$0	12	\$12,922
July 2002	40	\$36,651	10	\$8,092	12	\$7,223	18	\$21,336
August 2002	10	\$12,561	0	\$0	6	\$9,293	4	\$3,268
September 2002	5	\$2,526	0	\$0	0	\$0	5	\$2,526
October 2002	0	\$0	0	\$0	0	\$0	0	\$0
November 2002	35	\$32,057	0	\$0	0	\$0	35	\$32,057
December 2002	1	\$445	0	\$0	0	\$0	1	\$445
January 2003	3	\$772	0	\$0	0	\$0	3	\$772
February 2003	3	\$266	0	\$0	0	\$0	3	\$266
March 2003	4	\$2,368	0	\$0	0	\$0	4	\$2,368
April 2003	0	\$0	0	\$0	0	\$0	0	\$0
TOTAL	113	\$100,568	10	\$8,092	18	\$16,516	85	\$75,960

Background: This CAAT concentrates on a sub-set of vendor invoices paid by the County possessing certain common attributes. The CAAT reviews the attributes and highlights potential duplicate payments for further review and verification. During the month of April 2003, a total of 20,574 invoices for \$137,150,225 were added to this data sub-set representing March 2003 transactions.

Currently, the data sub-set includes a total of 655,326 invoices totaling \$4,619,575,027. The total data file that the sub-set is derived from includes 2,587,074 records totaling \$7,558,059,974.

2. CAAT Performed: **Employee Vendors.** We used a CAAT to identify employees who have recently received payments as vendors for goods and/or services based upon similar tax identification numbers.

Status: In April 2003, CEO/Human Resources informed Internal Audit that they are working to complete their review of 38 Employee Vendor relationships originally identified by the CAAT review and will be including the applicable departments in their research efforts.

3. CAAT Performed: **Employee Vendor Address Match.** We used a CAAT to identify instances where employees possess the same address as vendors.

Status: During April and May 2003, CEO/Human Resources and Internal Audit established a framework for researching, collecting, and evaluating Vendor Employee relationships that are identified in CAAT reviews.

Based on the new framework, the original list of employee vendor address matches was reduced to 12 selected items. Additional research and documentation was collected by Internal Audit and provided to CEO/Human Resources. CEO/Human Resources is currently researching the 12 items, and plans to include the applicable departments in the research efforts.

4. CAAT Performed: **Direct Deposits.** We used a CAAT application to review for multiple employee paychecks that are directly deposited to the same bank account. This review is designed to identify potential fictitious employees.

Results: This CAAT was applied in April and no irregular deposit activity was identified by the CAAT.

5. CAAT Performed: **Deleted Vendors.** We used a CAAT to identify Vendors that have been deleted or removed from the Vendor Master List.

A best business practice is to de-activate vendors rather than delete them from the Vendor Master file. Retaining vendor records in a de-active status protects the County's ability to fully research historical information.

Status: This CAAT was applied in April with no significant findings. However, enhancements to this CAAT procedure are currently made to better monitor and identify unusual changes that are made to the Vendor Master.

6. CAAT Performed: **Retiree/Extra Help Hours.** We used a CAAT to identify Retirees who worked as extra help more than 980 hours during fiscal year 2001/2002.

Results CEO/Human Resources reported to us on May 5, 2003 that it has implemented a biweekly process to monitor working retiree hours. CEO/Human Resources generates a report each pay period that tracks the cumulative number of hours that each retiree worker works and compares to established limits. In addition, we were also informed that procedures were implemented to notify OCERS when the hourly limit has been exceeded.

Next month we will report on the status of the 14 exceptions reported in the April 11, 2003 CAAT report.

Attachments – Provided to the Auditor-Controller or County Executive Office only:

- A. Employee Vendor Address Matches, dated 4/24/03 – CEO/Human Resources
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